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News Release

Doing Business 2007: Eastern European countries lead worldwide momentum for regulatory reform

WASHINGTON, D.C., September 6, 2006 – Doing business became easier in Eastern European countries in 2005–2006, according to a new report by the World Bank and the International Finance Corporation (IFC). Thirty-eight reforms in 16 economies in the region reduced the time, cost, and hassle for businesses to comply with legal and administrative requirements. Spurred by recent or prospective accession to the European Union, Eastern Europe reformed more than any other region, including Western Europe and other OECD countries.

Doing Business 2007: How to Reform finds that Romania was the second most active reformer on the ease of doing business across 175 economies, implementing reforms to simplify business licensing and trading, easing access to credit, increasing labor market flexibility, and strengthening investor protection. Croatia was ranked seventh. The top 10 reformers are, in order, Georgia, Romania, Mexico, China, Peru, France, Croatia, Guatemala, Ghana, and Tanzania.

Doing Business 2007 also ranks 175 economies on the ease of doing business—covering 20 more economies than last year's report. The top-ranked countries in Eastern Europe are Lithuania (16), Estonia (17), and Latvia (24), followed by Slovakia (36) and Romania (47).

The 30 economies that score the highest on the ease of doing business are, in order, Singapore, New Zealand, the United States, Canada, Hong Kong (China), the United Kingdom, Denmark, Australia, Norway, Ireland, Japan, Iceland, Sweden, Finland, Switzerland, Lithuania, Estonia, Thailand, Puerto Rico, Belgium, Germany, the Netherlands, Korea, Latvia, Malaysia, Israel, St. Lucia, Chile, South Africa, and Austria.

The rankings track indicators of the time and cost to meet government requirements in business start-up, operation, trade, taxation, and closure. They do not track variables such as market size, macroeconomic policy, quality of infrastructure, currency volatility, investor perceptions, or crime rates.

Romania—the top reformer in the region and second-ranked globally—simplified procedures for obtaining building permits and set up a single office for processing applications. This reduced the time for obtaining construction licenses by 49 days. Reforms to labor laws allowed term contracts to extend to six years, encouraging businesses to hire first-time workers. New customs procedures cut the time to satisfy regulatory requirements for trading in half, to 14 days. Romania also broadened the scope of information available for potential borrowers and sped bankruptcy proceedings.

Other notable reforms in Eastern Europe:

- **Croatia**—the runner-up reformer in the region and seventh globally—cut the time to register property from 956 to 399 days by computerizing records and delegating more authority to clerks. It introduced a single access point for new company registration. Croatia also allowed notaries to enforce uncontested claims of debt default.
- **Bulgaria and the Czech Republic** streamlined procedures for starting a new business and reduced the tax burden on firms. Both countries opened credit bureaus to distribute positive and negative information on individuals and businesses, easing access to credit by making it easier for lenders to assess risk.
- **Lithuania** created a virtual single access point for entrepreneurs, simplifying the formal procedures for setting up a new company. It loosened overtime restrictions for employers and abolished the road tax previously paid by all businesses.
- **Latvia** eliminated the license requirement for construction professionals, speeding their ability to form firms and start operations. It also significantly cut the number of tax payments businesses make—from 41 to eight—by introducing electronic payment and clarified the role of administrators in bankruptcy proceedings.
- **Macedonia** passed a sweeping revision of its labor code, easing regulation on term contracts, overtime pay, and severance pay. It also reduced the time necessary to resolve commercial disputes by almost a year, in part by eliminating defendants' ability to stall during trial. Macedonia introduced a new law on company registration, setting up a one-stop shop for entrepreneurs. Time to form a new company dropped by more than half, from 48 days to 18 days.
- **Serbia** streamlined customs operations through electronic data interchange and targeted inspections. Traders can now lodge their declarations electronically. As a result, import time dropped from 44 days to 12 days and export time from 32 to 11 days. Serbia also permitted the enforcement of collateral agreements out of court and set up an agency for training bankruptcy administrators. Both reforms should reduce risks for lenders, giving business more access to credit.
- **Slovakia** sped court proceedings by introducing stricter evidence rules and moving enforcement out of the courts. A new bankruptcy law also introduced the option of restructuring for viable businesses found in bankruptcy.
- **Poland** replaced its securities law with four new acts. Among other things, the legislation permits 5 percent shareholders to call for a special-purpose auditor to investigate suspicious company activities. This reform increases investor protection, making it easier for firms to raise money.
- The most popular reform in the region was lowering and simplifying corporate income taxes. Tax reformers included **Albania, Bosnia and Herzegovina, Estonia, Hungary, Montenegro,** and **Turkey. Bosnia and Herzegovina** also lowered property taxes.
- **Estonia** reformed its courts, introducing a fast-track procedure for small claims, reducing the time to resolve business disputes.

For the third year in a row, Eastern European economies reformed faster than any others. Every country except Slovenia made at least one reform. Reforms were spurred by regulatory competition in the enlarged European Union. But despite the improvements, on average Eastern European countries still impose more regulatory obstacles on business than OECD and East Asian countries.

"More progress is needed. Eastern European countries would greatly benefit from new enterprises and jobs, which can come with more business-friendly regulations," said Michael Klein, World Bank-IFC vice president for financial and private sector development and IFC chief economist.

The greatest remaining obstacles in the region are cumbersome business licensing requirements and lengthy court and tax compliance procedures. For example, in Bosnia and Herzegovina, it takes 16 procedures and 467 days and costs 24 times income per capita to meet the regulatory requirements to build a warehouse. In Slovenia, it takes 1,350 days to enforce a simple commercial contract through the courts. And in the Czech Republic, it takes 930 hours per year for a medium-size business to comply fully with tax requirements.

Doing Business allows policymakers to compare regulatory performance with other countries, learn from best practices globally, and prioritize reforms. "The annual *Doing Business* updates have already had an impact. The analysis has inspired and informed at least 48 reforms around the world. The lesson—what gets measured gets done," said Caralee McLiesh, an author of the report.
Globally the most popular reform in 2005–2006 was easing the regulations of business start-up. Forty-three countries simplified procedures, reducing costs and delays. The second most popular reform—implemented in 31 countries—was reducing tax rates and the administrative hassle of paying taxes.

Whatever reformers do, they should always ask the question, Who will benefit the most? If reforms are seen to benefit only foreign investors, or large investors, or bureaucrats-turned-investors, they reduce the legitimacy of the government. "Reforms should ease the burden on all businesses: small and large, domestic and foreign, rural and urban. This way there is no need to guess where the next boom in jobs will come from. Any business will have the opportunity to thrive," said Simeon Djankov, an author of the report.

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The Doing Business project is based on the efforts of more than 5,000 local experts – business consultants, lawyers, accountants, government officials, and leading academics around the world, who provided methodological support and review. The data, methodology, and names of contributors are publicly available online at http://www.doingbusiness.org.

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